November 8, 1996
Audit-Related Memorandum
97-SF-174-0801

MEMORANDUM FOR: Maxine B. Cunningham, Director, Office of Fair Housing Initiatives and Voluntary Programs, EEF

FROM: Gary E. Albright, District Inspector General for Audit, 9AGA

SUBJECT: Office of Fair Housing and Equal Opportunity
Oversight of Fair Housing Congress of Southern California, Inc.
Los Angeles, California

INTRODUCTION

This memorandum reports corrective actions that the Office of Fair Housing and Equal Opportunity (FHEO) should take to remedy deficiencies in its oversight of a grant awarded to Fair Housing Congress of Southern California, Inc. (FHCSC). As requested by your office, our initial objective was to determine whether FHCSC's accounting and operations performance for two Fair Housing Initiative Programs (FHIP) grants (lending and disability) totalling $1,114,548 was adequate, and in compliance with the grant agreements. Our review disclosed that FHEO had already determined that FHCSC had not complied fully with the lending grant agreement and had taken corrective action; therefore, we did not continue with a complete review of FHCSC. However, we identified deficiencies in FHEO's oversight of FHCSC's lending grant that warrant reporting and corrective action.

SUMMARY

Although FHCSC had improved its accounting system and was properly administering its disability grant, it did not adequately comply with the requirements of its lending grant. Specifically, FHCSC did not complete the main tasks outlined in the first year of its lending grant such as performing investigations of lending institutions, and hiring adequate management and staff to perform the tasks. FHEO was aware of these deficiencies and had proposed corrective actions to be undertaken by FHCSC. FHEO, however, did not ensure that necessary corrective actions had been accomplished.

Our limited review disclosed that FHEO (1) approved FHCSC's drawdowns totalling $148,000 even though the required tasks had not been accomplished, and (2) did not take adequate and timely action to ensure that grant activities had been accomplished.

We believe that these deficiencies occurred because FHEO did not give sufficient attention to its oversight of the lending grant. As a result, there is no assurance that FHCSC used the grant funds for the tasks and activities authorized under the grant agreement. Further, the tasks required by the grant agreement have been compromised due to delays and time constraints.

FHEO agreed to implement our recommendations; however, it disagreed with some of our comments and offered explanations for its actions. We have summarized FHEO's comments in the appropriate sections of this memorandum and have included the entire response as Appendix A.

BACKGROUND

FHCSC

FHCSC is a non-profit organization located in Los Angeles, CA. that was established to advocate and encourage the existence and maintenance of multi-ethnic neighborhoods and eliminate illegal discrimination against individuals seeking housing. During the review period, FHCSC received three HUD grants and two Community Development Block Grant (CDBG) awards funded by HUD through local governments as follows:

- FHIP lending grant, FH700G93-00042, for $312,728 was effective on September 20, 1994 for two years. The purpose of the grant was to conduct investigations of lending institutions who discriminate against minority home buyers.

- FHIP disability grant, FH700G94-00097, for $801,820 was effective on February 1, 1995 for two years. The purpose of the grant was to conduct audits to determine whether localities discriminate against disabled people in zoning and land use ordinances or practices.

- Moving-To-Opportunities (MTO) grant, for $274,683 is funded 26 percent directly by HUD and 74 percent from the Housing Authority of the City of Los Angeles. The purpose of the grant is to relocate low-income families to housing in better neighborhoods.

- Indirect CDBG award of $500,000 received annually from the City of Los Angeles to monitor the fair housing program for rental housing administered by contract agencies.

- Indirect CDBG award of $250,000 received annually from the County of Los Angeles to monitor the fair housing program for rental housing administered by contract agencies.

FHEO

According to FHEO staff, FHEO has the responsibility for overseeing the grantee's operation of the grants through a Grant Officer, a Government Technical Representative (GTR), and a Government Technical Monitor (GTM). The general functions and responsibilities of each position are:

- The Grant Officer has the responsibility to review, revise, and approve grant agreements and budgets, and take necessary enforcement action against the grantee.

- The GTR has the overall day-to-day responsibility of overseeing the grant activities such as reviewing and approving deliverables and drawdowns, and ensuring that timely monitoring reviews of the grantee are conducted.

- The GTM assists the GTR by performing the monitoring reviews of the grantee's performance and compliance with the grant agreements.

OBJECTIVES, METHODOLOGY, AND SCOPE

Our objective was to determine whether FHCSC's accounting and operations performance of the two FHIP grants was adequate, and in compliance with the grant agreements. Our review disclosed that FHEO had already determined that FHCSC had not complied fully with the grant agreement and had proposed corrective actions to be undertaken by FHCSC. We, therefore, did not continue with a complete review of FHCSC. However, we noted certain deficiencies in FHEO's oversight of FHCSC's lending grant that are being reported in this memorandum.

To accomplish our review, we interviewed FHEO and FHCSC management and staff and reviewed:

- HUD requirements and regulations;
- grant agreements and OMB circulars;
- prior audit and monitoring reports; and
- FHCSC's files, accounting systems, and operations.

Our review generally covered the period September 20, 1994 through May 31, 1996. We performed the audit work during April and May 1996.

REVIEW RESULTS

Although FHCSC had improved its accounting system and was adequately administering its disability grant, it did not adequately comply with the requirements of its lending grant. Specifically, FHCSC did not complete the main tasks outlined in the first year of its lending grant such as performing investigations of lending institutions, and hiring adequate management and staff to perform the tasks. FHEO, however, had already determined that FHCSC had not complied fully with the grant agreement and had proposed corrective actions to be undertaken by FHCSC. We, therefore, did not continue with complete review of FHCSC. However, our review disclosed deficiencies in FHEO's oversight of FHCSC's lending grant that warrant reporting and recommendations for corrective action.

Our limited review disclosed that FHEO (1) improperly approved FHCSC's drawdowns totalling $148,000 even though the required tasks had not been accomplished and (2) did not take adequate and timely action to ensure that grant activities had been accomplished.

We believe that these deficiencies occurred because FHEO did not give sufficient attention to its oversight of the lending grant. As a result, there is no assurance that FHCSC used the grant funds for the tasks and activities authorized under the grant agreement. Further, the tasks required in the grant agreement have been compromised due to delays and time constraints.

ACCOUNTING SYSTEM IMPROVED BUT INTERFUND BORROWING CONTINUED

FHCSC improved its accounting system in response to the fiscal year ended (FYE) June 30, 1994 audit report which disclosed that FHCSC did not maintain its general ledger on an accrual basis, commingled grant funds, and used interfund borrowing transactions. However, FHCSC did not discontinue its practice of interfund borrowing between grants.

On November 22, 1994, FHCSC hired a consultant to implement a computerized accrual based accounting system. Our review confirmed that FHCSC's accounting system was adequate. As of May 1996, we verified that FHCSC was no-longer commingling grant funds.

The independent public accountant (IPA) responsible for the FHCSC FYE June 30, 1995 audit report which has not been issued, said FHCSC has improved its accounting system but will report a repeat finding on its improper use of interfund borrowing transactions. According to the IPA, FHCSC used interfund borrowing for all of its grants and awards. The IPA said this was improper because grants have different requirements that restrict the use of funds for specific purposes under each grant/award. The IPA will be recommending that FHCSC terminate its improper use of interfund borrowing transactions in the future. FHCSC said that it was no longer using interfund borrowing transactions.

FHEO APPROVED FHCSC DRAWDOWNS EVEN THOUGH REQUIRED TASKS HAD NOT BEEN ACCOMPLISHED

Part 84 of Title 24 of the Code of Federal Regulations (CFR), Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations, prescribes procedures for the use of lump sum grants. Subpart E, Section 84.81(a), requires HUD to pay the recipient for completing certain defined tasks or achievements.

FHEO approved FHCSC's seven drawdowns totalling $148,000 as of March 31, 1996 from its lending grant even though FHCSC had not accomplished prescribed tasks required by the grant agreement. FHEO approved the draws for unsupported or incomplete tasks related to FHCSC's investigation of lending institutions, submission of financial status reports, and hiring of management and staff personnel. FHEO's approval of the drawdowns depended on FHCSC's submission of adequately supported and completed deliverables as scheduled in the grant agreement. The deliverables consist of documents, information, and/or financial reports provided by FHCSC as support for the completed tasks.

Investigations and Financial Reports Were Not Adequately Completed Or Submitted Timely

FHEO approved $148,000 in drawdowns even though FHCSC did not adequately complete the first year tasks such as conducting 30 investigations of lending institutions to determine whether they were discriminating against minority home buyers. FHCSC also did not timely submit quarterly financial status reports disclosing accountability and status of grant funds. For example, FHCSC completed only two of the 12 tasks that were required to be completed before the scheduled third drawdown could be requested. FHCSC, however, requested the drawdown on April 11, 1995 and FHEO approved it for payment. According to the GTR, most of the tasks in the first year of the lending grant were either not acceptable or not completed.

FHEO determined that FHCSC's deliverables were inadequate or not complete after the first year of the lending grant ended. In FHEO's September 29, 1995 monitoring report, it found that FHCSC did not adequately administer its lending grant and recommended it immediately determine what first year tasks had been completed, were in progress, and had not been completed. This request for information demonstrates that FHEO did not determine what tasks were adequately supported and completed before the drawdowns were approved. FHEO approved all of the first year grant of $120,000 as of FHCSC's September 21, 1995 drawdown request. In fact, FHEO approved an additional $28,000 in response to FHCSC's December 15, 1995 drawdown request even though it knew that FHCSC was not adequately completing the required tasks.

Auditee Comments and OIG Evaluation

FHEO stated that it approved the first $72,000 in accordance with the grant agreement. FHEO explained that it did not timely review the supporting documentation for the $48,000 balance of the first year grant because the GTR became ill, the GTM was promoted, and FHCSC's payroll had to be paid. FHEO approved the next $28,000 draw without review because of furlough delays.

Contrary to its claim that the $72,000 was properly approved, FHEO did not review the adequacy of the deliverables for any of the requests submitted by FHCSC before approving the drawdowns. FHEO's own records disclosed that FHCSC either did not complete the required work or did not submit sufficient documentation; therefore, the drawdowns were approved without adequate review.

Required Staffing Was Not Accomplished

FHEO did not ensure that FHCSC had adequate management and staff to administer the lending grant. In our opinion this was the cause of FHCSC's inability to accomplish the requirements of the grant in a timely manner.

Executive Director

FHEO was aware of FHCSC's use of a long-distance arrangement for its acting executive director. The executive director was hired in October 1995 and was paid $40,000 annually to perform full-time duty at FHCSC. She is, however, based at her other job in Philadelphia, Pa. as a full-time fair housing program director. The executive director said she performs FHCSC duties either at her residence after work or visits FHCSC about every two weeks for one or two days. From her residence, she writes letters and communicates with staff and board members via telephone and fax. FHCSC staff could contact her at her residence after 1:00 pm (PST).

We do not believe the executive director could effectively administer FHCSC's many programs under these arrangements. We believe FHCSC should have an executive director who is on-location at its office in Los Angeles on a full-time basis.

In addition, the executive director improperly charged the FHIP grants for plane tickets totalling $2,629 that were not authorized or budgeted in the grants. The executive director used the plane tickets to travel from her residence in Pennsylvania to FHCSC which is not in the normal course of business. OMB Circular A-122, Cost

Principles for Nonprofit Organizations, Attachment B, Section 50 (a), states that travel costs are allowable when directly attributable to specific work under an award or are incurred in the normal course of the administration of the grant.

Other Key Staff

The FHIP lending grant required the hiring of key management and staff to perform the required tasks. As of May 1996, however, FHCSC still had not filled two full-time key positions, a director of operations and a lending assistant.

The director of operations position has been vacant since August 11, 1995 or about nine months as of May 31, 1996. The lending assistant position has not been occupied by a full-time employee, but by a part-time employee who was previously a temporary administrative assistant. Since these positions were budgeted and paid for in the grant, we believe they should have been occupied by qualified full-time employees.

Auditee Comments and OIG Evaluation

FHEO stated that the long-distant arrangement allowed FHCSC to get a good executive director to put FHCSC "back on track". FHCSC hired a permanent executive director recently and plans to abolish the director of operations position. Also, FHIP grants are not FHCSC's only source of funding for the executive director or director of operations salaries. FHEO commented that non-profit organizations normally fill positions to carry out the functions of other grants even though funding is unavailable.

FHEO's comments are not supported by the facts. In its April 1996 letter to FHCSC, FHEO criticized the executive director arrangement and director of operations vacancy as problems that materially affected FHCSC's ability to accomplish the required work. Although it was instructed to hire a new executive director and director of operations immediately, FHCSC had not done so as of August 19, 1996. Our main concern is that FHEO allowed FHIP funds to be drawn down for vacant positions.

FHEO DID NOT TAKE ADEQUATE AND TIMELY ACTION TO ENSURE THAT GRANT ACTIVITIES HAD BEEN ACCOMPLISHED

Subpart E, Section 84.86(b)(1) of Title 24 of the CFR states that if the grantee materially fails to comply with the terms and conditions of an award, HUD may take appropriate actions such as (i) temporarily withholding cash payments pending correction of the deficiencies; (ii) wholly or partly suspend or terminate the current award; and (iv) take other remedies that may be legally available.

FHEO did not take adequate and timely action to ensure that grant activities had been accomplished as prescribed by the grant agreement. FHEO identified FHCSC's performance problems in its September 29, 1995 monitoring report and required corrective actions within 45 days. According to the GTR, FHCSC did not take adequate corrective actions and continued to have problems. FHEO, however, did not take timely action after the 45 days. Instead, FHEO waited an additional five months before taking administrative action. Also, FHEO initiated administrative action only after the OIG was in the review process and seven months after the first year of the lending grant ended on September 19, 1995.

In an April 19, 1996 letter, FHEO's Grant Officer initiated administrative action against FHCSC to immediately correct performance problems in the lending grant. Generally, FHCSC did not: (1) adequately complete the required tasks and submit deliverables required by the grant agreement; (2) staff key personnel positions and; (3) hire a new executive director. FHEO directed FHCSC to correct the problems within 10 working days of the letter or HUD would take enforcement action to terminate the grant. Subsequently, FHEO granted FHCSC an extension until September 20, 1996 to correct the problems. This extension and FHEO's proposed corrective actions, however, seem impractical and unreasonable because FHCSC would have to complete its first and second year tasks in about five months. Among the tasks, FHCSC must investigate 60 lending complaints, conduct tests on 45 of those complaints, and hire an executive director and director of operations. Further, since the extended date of September 20, 1996 was the day after the contract expired it was meaningless as a date for initiating enforcement action.

We have particular concern where FHEO directed FHCSC to hire key personnel when only a few months are left in the grant period. By the time these positions are filled, the grant will be over and the personnel would no longer be needed.

We believe that these deficiencies occurred because FHEO did not give sufficient attention to its oversight of the lending grant.

As a result, there is no assurance that the lending grant tasks were accomplished, and when combined with interfund borrowing, that the funds were properly used. Furthermore, the tasks required in the grant agreement have been compromised due to delays and time constraints. During the recent negotiation process, FHEO agreed to allow FHCSC not to submit the lending grant's first year-end financial report summary. According to the GTM, FHEO will not receive some of the tasks or only receive part of the required tasks that were in the grant agreement because of the delays and time constraints.

Auditee Comments and OIG Evaluation

FHEO asserted that the excellent oversight provided by the GTR and GTM enabled FHCSC to make substantial progress in completing the required lending activities. FHEO extended the grant term by five months through February 20, 1997 to allow FHCSC additional time to complete unfinished work. FHEO stated that its actions were delayed by the government shutdowns after the September 1995 monitoring report. Subsequently, FHEO initiated administrative action during the OIG review and requested an audit report by March 1996.
FHEO also asserted that an IG closeout audit would be appropriate in lieu of a GTR review to assure that the grant funds were used for authorized purposes.

We disagree with FHEO's comments. FHEO should have made timely reviews of the deliverables during the year when drawdown requests were submitted instead of waiting until the year-end monitoring. Further, FHEO's request for an audit report by March 1996 is not a reason to delay taking action on problems noted in September 1995. Contrary to its assertion, it is FHEO's responsibility as an administrative office to assure that the grant funds are used for authorized purposes. OIG is an independent HUD office responsible for the conduct of audits of HUD programs and participants; however, audit activity should not be considered as a replacement for timely monitoring.

RECOMMENDATIONS

We recommend that you:

1A. Issue instructions to your staff that emphasize the importance of ensuring that grantees have complied with the terms of grant agreements before funds are released;

1B. Determine whether FHCSC should reimburse $2,629 to the FHIP grants for the improper use of grant funds for the purchase of airline tickets for the executive director. Any reimbursement should be with non-Federal funds;

1C. Ensure that FHCSC has discontinued its use of interfund borrowing transactions; and

1D. Re-evaluate FHCSC's staffing, demonstrated performance, and overall qualifications before considering FHCSC for future grant awards.

* * * *

Within 60 days, please furnish us a status report on the recommendations stating (1) the corrective action taken, (2) the proposed corrective action and the date to be completed, or (3) why action is not needed. Also, please furnish us copies of any correspondence or directives related to this audit.

Please call Glenn Warner, Assistant District Inspector General for Audit, at (415) 436-8104 if you have any questions.

Appendices
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